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ARAB STATES: Western bankers will assist the Arab countries to invest their surplus oil revenues. A joint corporation was formed this week between the Arab Bank in Amman--the largest privately owned bank in the Middle East--and a large British merchant bank that has strong US ties. The new company will help the Arab governments channel their capital into such development projects as oil refineries and manufacturing plants.

The participation of the Arab Bank should encourage investment by Arab governments that have objected to Western control of their assets. Some of the Arab governments, moreover, lack the administrative capability to handle such large volumes of capital effectively.

The new corporation is the second institution to be set up in the past month to channel Arab funds into development projects in the Middle East. The first was in response to a call by the Arab League to repatriate foreign deposits for investment in Arab countries. 25X1

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LIBYA-ITALY: Rome is becoming increasingly concerned that Tripoli will use Italian reliance on Libyan oil as a lever to gain the release of 150 armored personnel carriers (APCs) contracted for in early 1973 but not yet delivered. [redacted] 25X1
25X1 [redacted] Tripoli threatened in mid-December to shut off oil supplies to Italy if delivery of the APCs did not commence in the near future. The APCs, M113s manufactured in Italy under US license, cannot be exported without abrogating the US agreement. Although the US did approve a sale in 1972 of APCs, Washington has refused to sanction the new sale.

Rome's sale of 152 APCs to Tripoli in 1972 represented the first Western inroad into a Soviet and Czechoslovakian monopoly on armored equipment sales to the Qadhafi government. In addition, Italy has provided Libya with helicopters, artillery, and support equipment, and Italian firms have contracted to supply naval radar and enlarge and modernize two Libyan airfields.

A Libyan delegation that arrived in Italy earlier this month is currently trying to arrange the delivery of helicopters purchased last year. These helicopters are also manufactured under US license, but export approval has already been granted by Washington. [redacted] 25X1 25X1

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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar's surge in early January came to an abrupt halt on European money markets yesterday. The sizable gains of Monday and Tuesday were lost as the dollar fell to its level of January 4.

Bonn's announcement that it was removing all foreign exchange controls--introduced in 1972 to slow massive dollar inflows--keyed the shift of traders from dollars to other currencies. Other factors in the reversal included an apparent easing in Europe's oil situation--reflected in the postponement of Germany's weekend driving ban--a reduction in Libya's previously reported posted oil price, and intervention by both the German and Japanese central banks. The only offsetting factor was the news that the oil-exporting nations, meeting in Geneva, have decided to postpone until April 1 any decision on oil price changes. [redacted] 25X1

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THAILAND: The arrival of Prime Minister Tanaka has brought students back into the streets of Bangkok in numbers reminiscent of the riots last October. Some 10,000 students held a mid-morning rally on January 9 to protest Japanese economic "imperialism." During the demonstration, some 3,000 students broke away from the main body to march on the US Embassy. The students protested alleged CIA interference in Thai internal affairs and demanded that Ambassador Kintner leave the country. They dispersed later in the evening, following assurances from the prime minister's office that government officials would meet with student leaders.

Thai students have been preoccupied with domestic affairs in recent months and anti-US sentiment has not been a major student issue. Student leaders have now seized on the recent CIA letter episode as a means of galvanizing public opinion and are pressing the government to take a hard line with the US over this incident. Given the Sanya government's sensitivity to student political pressure, some type of formal protest may indeed be forthcoming. 25X1

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<u>BRAZIL-CHILE</u>: Brazil has signed an agreement to provide a $50-million loan to Chile--considerably less than the $200-million package that had been discussed by the two governments last fall. While the loan is technically "untied," there reportedly is a clear understanding that it will be used to purchase Brazilian goods and services.

Following Allende's overthrow, Brazilian officials expressed a willingness to provide virtually any amount of assistance that the junta might need. After an initial $26-million line of credit, however, mostly for purchases in Brazil, the Brazilians became hesitant about making extensive commitments. When a Chilean economic team visited Brasilia to present formal aid requests, Brazil merely agreed in principle to its proposal for a $200-million loan package and refused outright to guarantee new international lines of credit.

A combination of factors may account for Brazil's hesitation. Brazil may be reserving judgment as to the junta's policy directions before making deeper commitments, or it may hope that other nations--notably the US--will begin providing Chile with enough assistance to make a heavy commitment by Brazil unnecessary. Brazil may also be reacting to Chile's recent failure to support Brasilia's opposition to a UN measure sponsored by rival Argentina. In addition, officials of the Medici government, which is in its final months, may not want to bind the next administration to such a substantial commitment. [redacted]

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BOLIVIA: The exile of former president Victor Paz Estenssoro marks the collapse of efforts to end recent friction between Paz and the Banzer government.

Paz, leader of the country's largest political party, the National Revolutionary Movement (MNR), was deported to Paraguay along with some of his advisers following a meeting with the minister of interior in which Paz apparently rejected an offer to bring his party back into Banzer's coalition. Last week Paz and President Banzer met for several hours, but failed to reach an agreement.

The government's action does not come as a surprise to Bolivians. There have been rumors that Paz might be forced to leave the country ever since he ordered his party to withdraw from the cabinet last November. Some elements of the MNR stuck with Banzer, however, and the President will probably try to win over other party leaders with offers of jobs [redacted]

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